AMERICAN VANADIUM CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
American Vanadium Corp.

We have audited the accompanying consolidated financial statements of American Vanadium Corp., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2012 and the ten month period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of American Vanadium Corp. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the year ended December 31, 2012 and the ten month period ended December 31, 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about American Vanadium Corp.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 26, 2013

AMERICAN VANADIUM CORP.
CONSOLIDATED BALANCE SHEETS
IN CANADIAN DOLLARS

	December 31 2012 $	December 31 2011 $
ASSETS		
Current assets		
Cash	**1,716,318**	4,245,438
Amounts receivable	**42,328**	128,656
Income tax receivable	**102,035**	267,971
Prepaid expenses (Note 7)	**89,416**	101,695
Deferred engineering management expense and deposit (Note 5)	**1,776,212**	1,079,390
Total current assets	**3,726,309**	5,823,150
Equipment (Note 4)	**74,231**	49,455
Reclamation deposit	**145,311**	85,720
Mineral properties (Note 5)	**1,922,167**	1,535,943
Total assets	**5,868,018**	7,494,268
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	**1,271,194**	784,883
Total liabilities	**1,271,194**	784,883
Shareholders' equity		
Share capital (Note 6)	**17,461,187**	14,058,111
Equity reserves	**2,876,809**	2,339,450
Deficit	**(15,741,172)**	(9,688,176)
Total shareholders' equity	**4,596,824**	6,709,385
Total liabilities and shareholders' equity	**5,868,018**	7,494,268

Basis of presentation and continuance of operations (Note 2)

Commitments and contingencies (Note 13)

Events after the reporting period (Note 14)

On behalf of the Board:

Signed: "William Radvak" Director

Signed: "Brian E. Bayley" Director

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
IN CANADIAN DOLLARS

	For the twelve months ended December 31 2012	For the ten months ended December 31 2011
	$	$
		Note 2
Exploration and evaluation expenses (Note 5)	**(3,401,386)**	(2,582,938)
General and administrative expenses:		
Salaries and benefits (Note 7)	**936,004**	514,135
Consulting (Note 7)	**483,129**	270,262
Stock-based compensation	**334,780**	781,370
Travel	**252,996**	228,046
Office facilities and administrative services (Note 7)	**201,042**	144,221
Audit and legal	**127,254**	110,407
Investor relations and shareholder information	**122,766**	337,164
Office and sundry	**93,404**	88,889
Transfer agent, listing and filing fees	**65,396**	40,633
Amortization	**22,068**	12,869
Total general and administrative expenses	**(2,638,839)**	(2,527,996)
Foreign exchange (loss) gain	**(22,470)**	106,811
Interest income	**9,699**	18,678
	(12,771)	125,489
Loss before income taxes	**(6,052,996)**	(4,985,445)
Current income tax recovery (Note 9)	**-**	95,000
Net comprehensive loss	**(6,052,996)**	(4,890,445)
Basic and diluted loss per share (Note 12)	**(0.21)**	(0.20)

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
IN CANADIAN DOLLARS

	Share Capital	Equity Reserves	Deficit	Total
	$	$	$	$
Balance, March 1, 2011 (Note 2)	6,349,922	964,670	(4,797,731)	2,516,861
Private placements, net of share issuance costs	6,919,555	651,526	-	7,571,081
Exercise of warrants	466,666	-	-	466,666
Exercise of stock options	141,968	(58,116)	-	83,852
Shares issued for water rights (Note 5)	67,500	-	-	67,500
Shares issued for claims acquisition (Note 5)	33,750	-	-	33,750
Performance shares (Note 6)	78,750	-	-	78,750
Stock-based compensation	-	781,370	-	781,370
Net comprehensive loss for the period	-	-	(4,890,445)	(4,890,445)
Balance, December 31, 2011	14,058,111	2,339,450	(9,688,176)	6,709,385
Private placements, net of share issuance costs	3,211,082	254,573	-	3,465,655
Exercise of stock options	121,994	(51,994)	-	70,000
Performance shares (Note 6)	70,000	-	-	70,000
Stock-based compensation	-	334,780	-	334,780
Net comprehensive loss for the year	-	-	(6,052,996)	(6,052,996)
Balance, December 31, 2012	**17,461,187**	**2,876,809**	**(15,741,172)**	**4,596,824**

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
IN CANADIAN DOLLARS

	For the twelve months ended December 31 2012	For the ten months ended December 31 2011
	$	$
		Note 2
CASH FLOWS FROM OPERATING ACTIVITIES		
Net comprehensive loss	**(6,052,996)**	(4,890,445)
Items not involving cash:		
Stock-based compensation	**334,780**	781,370
Salaries and benefits settled by issuance of shares	**70,000**	78,750
Amortization	**22,068**	12,869
Changes in non-cash working capital balances:		
Deferred engineering management expense and deposit	**(696,822)**	(816,125)
Amounts receivable	**86,328**	(89,684)
Accounts payable and accrued liabilities	**486,311**	(350,026)
Prepaid expenses	**12,279**	(13,555)
Income tax receivable	**165,936**	(102,833)
Non-operating income:		
Interest income	**(9,699)**	(18,678)
Net cash used in operating activities	**(5,581,815)**	(5,408,357)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property acquisition costs	**(386,224)**	(476,566)
Purchase of equipment	**(46,844)**	(47,597)
Increase in reclamation deposit	**(59,591)**	(33,566)
Interest income	**9,699**	18,678
Net cash used in investing activities	**(482,960)**	(539,051)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	**3,535,655**	8,239,444
Net cash provided by financing activities	**3,535,655**	8,239,444
Change in cash for the period	**(2,529,120)**	2,292,036
Cash, beginning of period	**4,245,438**	1,953,402
Cash, end of period	**1,716,318**	4,245,438

Supplemental Cash Flow Information

Non-cash investing activities

During the ten months ended December 31, 2011, water and mineral rights were acquired through the issuance of common shares valued at $101,250, recorded in mineral properties as an acquisition cost. There are no non-cash investing activities during the year ended December 31, 2012.

Non-cash financing activities

During the ten months ended December 31, 2011, the Company issued 217,858 share purchase warrants valued at $117,900 for agent's and finder's fees related to various private placements of common shares. During the twelve months ended December 31, 2012, the Company issued 139,245 share purchase warrants valued at $28,763 for agent's and finder's fees related to various private placements of common shares. These amounts are recorded as share issuance costs, reducing the value of shareholders' equity. During the ten months ended December 31, 2011, $58,116 was reclassified from equity reserves to share capital on the exercise of stock options. During the twelve months ended December 31, 2012, $51,994 was reclassified from equity reserves to share capital on the exercise of stock options.

Income taxes and interest paid

During the ten months ended December 31, 2011, no amounts were paid for income tax or interest. During the twelve months ended December 31, 2012, the Company received a tax refund in the amount of US$160,934.

1. NATURE OF OPERATIONS

American Vanadium Corp. (the "Company"), incorporated under the *Canada Business Corporations Act*, is engaged in the acquisition and exploration of mineral properties, with a strategic focus on vanadium properties in the State of Nevada. The Company has completed a feasibility study on its Gibellini Property and, pending factors such as receiving regulatory approvals, obtaining financing and entering into profitable supply arrangements, the Company plans to develop and/or operate a mine in the future. During the year ended December 31, 2012, the Company submitted a plan of operations to a regulatory agency as a pre-requisite to obtaining an environmental permit to operate a mine on the Gibellini Property.

The Company is also seeking to distribute vanadium products in the renewable energy and other high-value sectors. Although the Company has not yet formally entered into these markets, these activities could be operated independently of operating a mine on the Gibellini Property, while availing of synergies from having an internal supply of vanadium.

The address of the Company's principal place of business is Suite #910, 800 W. Pender Street, Vancouver, British Columbia, Canada, and its shares trade on the TSX-Venture Exchange (the "Exchange") under the symbol "AVC" and are quoted on the OTCQX under the symbol "AVCVF".

2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

Change in financial year

In October 2011, the Company announced that it would change its financial year-end from February 28 to December 31 in order to align its financial reporting with its operational and budgeting cycles. The current period ended December 31, 2012 is a 12-month period, while the comparative period ended December 31, 2011 is a 10-month period. Consequently, current and prior period balances may not be fully comparable.

Statement of compliance

These consolidated financial statements, including comparative periods, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Significant accounting policies and the applicable basis of measurement used in the preparation of these consolidated financial statements are described in Note 3.

These consolidated financial statements were authorized by the Board of Directors on April 26, 2013.

Going concern

These consolidated financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its inception, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to develop profitable operations or continue to raise additional funds, in which case the Company may be unable to meet its financial obligations. Should the Company be unable to generate funds from its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company's ability to raise additional funds is dependent on favourable conditions in equity and alternative investment markets, which are volatile and subject to significant uncertainty. The Company will continue to identify alternative sources of financing, but anticipates reliance on equity markets in the near term. Based on these factors, there is a material uncertainty that exists that may cast significant doubt about the Company's ability to continue as a going concern.

As at December 31, 2012, the Company maintained a working capital surplus of $2,455,115 (2011 - $5,038,267) and had $4,596,824 (2011 - $6,709,385) in shareholders' equity.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are those policies which the Company has adopted for its consolidated financial statements for the twelve months ended December 31, 2012. These policies have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

These consolidated financial statements include the assets, liabilities, income and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars.

Basis of measurement

The balances in these consolidated financial statements have been measured on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company and American Vanadium US Inc.

Foreign currency translation

The functional currency, the primary currency in which an entity operates, is determined for the Company and its consolidated subsidiary. Balances and transactions that are denominated in currencies other than the functional currency are translated to the functional currency as follows:

- Revenue and expense items are translated at the foreign exchange rates prevailing on the dates they occur.
- Non-monetary assets and liabilities are translated at historical foreign exchange rates, unless such items are carried at market value, in which case they are translated at the exchange rate in effect on the balance sheet date.
- Monetary assets and liabilities are translated at the foreign exchange rate in effect at the balance sheet date.

Gains and losses arising from changes to the exchange rates used to translate foreign-denominated balances and transactions into the functional currency are recorded as a component of net loss in the period in which they occur.

Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss,” “loans and receivables,” “available-for-sale,” “held-to-maturity,” or “financial liabilities measured at amortized cost” as follows:

i) Financial assets

Financial assets comprise cash, amounts receivable and reclamation deposits. Cash comprises liquid balances held at large Canadian and U.S. banks and is measured at fair value through profit and loss. Amounts receivable and reclamation deposits are classified as loans and receivables and are recorded at amortized cost using the effective interest rate method. Under this classification, all cash flows from these financial instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows and this accretion is recorded as interest income.

ii) Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities. These are classified as financial liabilities measured at amortized cost using the effective interest rate method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest expense.

Reclamation deposits

Regardless of whether an actual liability for the reclamation of mineral properties exists, the Company classifies amounts deposited with environmental agencies or amounts held as security for potential reclamation liabilities separately from cash.

Equipment

Equipment is recorded at cost less accumulated amortization. Cost includes the purchase price of the equipment and the directly related costs to transport or prepare the equipment for its intended use. Amortization is provided on a straight-line basis over three to five years, which represents the estimated useful lives of the assets.

Mineral properties

The Company’s accounting policy for mineral property costs is dependent on the stage of the properties to which the costs relate. All capitalized costs are attributed to the individual mineral properties to which they relate, known as cash generating units (“CGUs”).

Acquisition costs

All costs incurred to acquire or maintain mineral property rights are capitalized to the relevant CGU. These costs are not depleted until the CGU reaches production.

Exploration and evaluation expenses

Costs related to the exploration and evaluation of properties for which no technically or economically feasible reserves have been identified are recorded as an expense in the period incurred. The Company determines that technical and economic feasibility exists when:

- a feasibility study, prepared in accordance with professional geological standards, defines a proven mineral reserve body;
- the Company intends to recover the mineral reserves through mining activity or sale of mineral rights; and
- the Company has sufficient financing available to develop a mine.

Development costs

When technical and economic feasibility exists for a certain CGU, all costs incurred to further prepare and develop a mine, or to ready the reserve rights for sale, are capitalized. Such costs may include interest on debt financing required to construct a mine or general and overhead expenses that are directly attributable to the CGU. These capitalized costs are not subject to depletion until such time as the mine is ready for production or the mineral rights are saleable, at which point they are depleted on a unit-of-production basis over the estimated recoverable reserves of each CGU.

Post-development costs

After a mine is ready for production or mineral reserves are saleable, all costs, including interest on related debt and general and administrative costs are expensed in the period incurred unless they relate to an extension of mineral reserves or a significant improvement in mining operations. In these instances, the expenditures related to the betterment are capitalized and are depleted on a unit-of-production basis over the remaining recoverable reserves.

Impairment of mineral properties and equipment

The carrying amounts of equipment and mineral properties, regardless of the development stage, are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. An impairment loss exists if the asset's carrying amount exceeds the recoverable amount and is recorded as an expense when identified. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the CGU to which the asset belongs is determined.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mineral properties, fair value less cost to sell is often estimated using a discounted cash flow approach as fair values from active markets or binding sale agreements are not readily available. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate.

Impairments on equipment and mineral properties may be subsequently reversed in subsequent periods. When a reversal of impairment is recorded, the carrying value of the asset is increased to its recoverable amount which cannot exceed the carrying amount of the asset that would have existed had no impairment been recognized in prior periods. Any reversal of impairment is recognized as a component of net (loss) income when identified.

Deferred financing costs

Expenditures directly related to share issuances are recorded as a deferred financing cost until such time as the shares are issued. When shares are issued, the deferred financing cost is recognized as a reduction of the net proceeds from the share issuance. If no shares are issued, these deferred financing costs are recognized as a component of comprehensive loss.

Current and deferred income taxes

Current taxes receivable or payable are estimated on taxable income for the current period at the statutory tax rates enacted or substantively enacted on the balance sheet date.

Deferred tax assets and liabilities are recognized based on the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits of the relevant entity or group of entities, in a particular jurisdiction, will be available against which the assets can be utilized.

Reclamation provision

The Company recognizes a provision for environmental reclamation of its mineral properties in the period in which the Company becomes legally or constructively liable for future reclamation expenditures. The reclamation provision is initially measured as the present value of future expected reclamation cash flows, discounted using the risk-free interest rate prevailing at the time the liability is incurred, and a corresponding amount is recorded in the carrying value of the related mineral property.

Subsequent to initial measurement, the provision is re-measured using the risk-free interest rate prevailing on each reporting date. Changes to the carrying value of the provision for changes to the discount rate, or for changes to the timing and amount of expected future reclamation cash flows are recorded as an adjustment to the carrying value of the related mineral property. Changes to the carrying value of the provision from the accretion of its discounted value are recorded as a financing expense.

As at December 31, 2012, the Company has no known environmental reclamation commitments.

Stock-based compensation

The Company recognizes a stock-based compensation charge in operations for stock options granted to employees, officers and directors of the Company, as well as to external consultants. The stock-based compensation charge is based on the fair value of option awards granted, measured using the Black-Scholes option pricing model at the date of issue. The fair value of stock options granted is amortized to expense on a graded basis over the vesting periods of the option granted with an off-setting amount recorded in equity reserves. Any expense recorded for options that are forfeited because non-market vesting conditions are not satisfied is reversed in the period in which forfeiture occurs.

Warrants

Warrants issued by the Company typically accompany an issuance of shares in the Company, and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company. The fair value of the warrants is measured as the incremental difference between the value of the combined share and warrant unit and the fair value of stand-alone shares; the fair value attributed to warrants is recorded as a component of equity reserves. When warrants are exercised, the fair value of the exercised warrants is reclassified to share capital.

(Loss) earnings per share

Basic (loss) earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share, which reflects the dilutive effect of options, warrants and other convertible instruments, is calculated using the treasury stock method. Under this method, the dilutive effect on earnings per share reflects the assumption that the proceeds from the exercise of options, warrants and other convertible instruments are used to purchase and cancel common shares at the average market price during the period. In periods that the Company reports a net loss, loss per share is not presented on a diluted basis, as the result would be anti-dilutive.

Judgments, estimates and measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

i. Mineral properties

The measurement, depletion and impairment of mineral properties are based on various judgments and estimates. These include the technical and commercial feasibility of these properties, which incorporates various assumptions for mineral reserves, future mineral prices, and operating and capital expenditures for the properties.

The Company believes that the carrying values of its mineral properties are supported by the value of the properties' reserves or expected future cash flows. However, differences between actual and anticipated reserves, mineral revenues and costs could result in future impairments being recognized.

ii. Deferred engineering management expense and deposit

The carrying value of the deferred engineering expense and deposit, as well as the expense recognized in a reporting period, is based on the percentage of total related expenses that has been incurred to a reporting date. The total projected expense is based on management's expectations for work that will be performed, including work that has not yet been contracted, as well as estimates for the future costs of project phases. In making such estimates and judgments, management considers its intentions for mine development, the likelihood that future project phases will be financed and cost projections from contractors. Should the actual outcomes of these factors differ from those estimated by management, the Company may recognize a significant change in the carrying value of deferred expenses.

iii. Reclamation provision

The Company records a reclamation provision for the discounted present value of expected future expenditures, if any, required to environmentally reclaim its mineral properties. The measurement of this provision, if one exists, is based on estimates for the amounts and timing of future cash flows. Differences between actual cash flows and those estimated could result in the reclamation provision being over or understated.

iv. Taxation

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matters that may not have been reported to or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable by the Company.

Deferred tax assets are recognized to the extent that certain taxable losses or deferred expenditures will be utilized by the Company to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Company will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Company's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

v. Stock-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and share purchase warrants granted. This model requires management to estimate the volatility of the Company's future share price, expected lives of stock options and future dividend yields. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

Future changes in accounting policies

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. These standards have been assessed to not have a significant impact on the Company's financial statements:

i. IAS 1, "*Presentation of Financial Statements*"

IAS 1 is amended to change the disclosure of items presented in other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. This accounting policy is effective for fiscal years beginning on or after July 1, 2012.

ii. IAS 32, "*Financial Instruments: Presentation*"

IAS 32 is amended to clarify requirements for offsetting financial assets and financial liabilities. This accounting policy is effective for fiscal years beginning on or after January 1, 2014.

iii. IFRS 7, "*Financial Instruments: Disclosures*"

IFRS 7 is amended to enhance disclosure requirements related to offsetting financial assets and financial liabilities. This accounting policy is effective for fiscal years beginning on or after January 1, 2013.

iv. IFRS 9, "*Financial Instruments*"

The IASB intends to replace IAS 39 – "*Financial Instruments: Recognition and Measurement*" in its entirety with IFRS 9. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, in which case it is at fair value through profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

v. IFRS 10, "*Consolidated Financial Statements*"

IFRS 10 replaces the guidance on control and consolidation in IAS 27, "*Consolidated and Separate Financial Statements*", and SIC-12, "*Consolidation - Special Purpose Entities*". IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This accounting policy is effective for fiscal years beginning or after January 1, 2013.

vi. IFRS 11, "*Joint Arrangements*"

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31, "*Interests in Joint Ventures*" and SIC-13, "*Jointly Controlled Entities – Non-Monetary Contributions by Venturers*", and is effective for annual periods beginning on or after January 1, 2013.

vii. IFRS 12, "*Disclosure of Interests in Other Entities*"

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

viii. IFRS 13, "*Fair Value Measurement*"

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRS that require or permit fair value measurements or disclosures about fair value measurements, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013.

4. EQUIPMENT

Changes to the Company's equipment balances are as follows:

	Field Equipment	Office Equipment	Vehicles	Total
	$	$	$	$
Cost				
Balance, March 1, 2011	28,680	6,439	-	35,119
Additions	-	6,479	41,118	47,597
Balance, December 31, 2011	28,680	12,918	41,118	82,716
Additions	12,975	33,869	-	46,844
Balance, December 31, 2012	**41,655**	**46,787**	**41,118**	**129,560**
Accumulated amortization				
Balance, March 1, 2011	18,341	2,051	-	20,392
Additions	4,299	2,204	6,366	12,869
Balance, December 31, 2011	22,640	4,255	6,366	33,261
Additions	7,069	6,420	8,579	22,068
Balance, December 31, 2012	**29,709**	**10,675**	**14,945**	**55,329**
Carrying value				
March 1, 2011	10,339	4,388	-	14,727
December 31, 2011	6,040	8,663	34,752	49,455
December 31, 2012	**11,946**	**36,112**	**26,713**	**74,231**

5. MINERAL PROPERTIES

Acquisition costs

As at December 31, 2012 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral rights. Changes to these carrying values are as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
As at March 1, 2011	909,273	39,683	9,171	958,127
Additions	577,816	-	-	577,816
As at December 31, 2011	1,487,089	39,683	9,171	1,535,943
Additions	386,224	-	-	386,224
As at December 31, 2012	**1,873,313**	**39,683**	**9,171**	**1,922,167**

The Company has capitalized, rather than expensed, property acquisition costs on the basis that holding title to the related properties allows the Company to explore and develop these properties in the future. Acquiring and maintaining title to mineral properties involves certain inherent risks due to difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Exploration and evaluation expenses

During the twelve months ended December 31, 2012, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Engineering, procurement and construction management	1,017,551	-	-	1,017,551
Environmental permitting	812,359	-	-	812,359
General	354,185	-	-	354,185
Metallurgy	344,177	-	-	344,177
Geotechnical	288,257	-	-	288,257
Drilling and trenching	210,748	-	-	210,748
Property maintenance	141,925	19,139	2,692	163,756
Engineering	113,834	-	-	113,834
Microgrid feasibility	77,743	-	-	77,743
Exploration	6,549	-	-	6,549
Feasibility	6,197	-	-	6,197
Power	5,433	-	-	5,433
Water	597	-	-	597
	3,379,555	**19,139**	**2,692**	**3,401,386**

During the ten months ended December 31, 2011, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	**Del Rio**	**Hot Creek**	**Total**
	$	**$**	**$**	**$**
Feasibility	975,268	-	-	975,268
Environmental permitting	520,843	308	-	521,151
General	445,134	11,647	454	457,235
Metallurgy	310,534	2,882	3,509	316,925
Geotechnical	111,406	2,529	-	113,935
Property maintenance	60,229	17,861	2,666	80,756
Exploration	37,348	1,707	927	39,982
Engineering, procurement and construction management	32,656	-	-	32,656
Engineering	21,368	290	586	22,244
Power	17,367	-	-	17,367
Water	5,419	-	-	5,419
	2,537,572	**37,224**	**8,142**	**2,582,938**

Summary of properties

a) Gibellini Property, Nevada, U.S.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 40 unpatented lode mining claims, paying US$60,000 upon the execution of the agreement. Pursuant to the terms of the agreement, the Company is required to pay a production royalty of 2.5% of the net smelter returns ("NSR") of all mineral substances produced from the claims, to a maximum of US$3,000,000, at which point the production royalty decreases to 2.0%. The Company is also required to pay US$30,000, quarterly, and such payments are credited against any future production royalties payable. As of December 31, 2012, the Company has paid a total of US$630,000 in these advance royalty payments, including US$120,000 paid during the twelve months ended December 31, 2012.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 12 unpatented lode mining claims, paying US$9,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay an initial production royalty payment of US$30,000 within 60 days of production from the claims and a production royalty of 3.0% of NSR of all mineral substances produced from the claims. Also, the Company must pay an escalating series of annual payments, which will be credited against any future production royalties payable. As of December 31, 2012, the Company has paid a total of US$119,000 in these advance royalty payments, of which US$24,000 was paid in the twelve months ended December 31, 2012; remaining payments are US$24,000, annually. Further, the Company has the option to purchase these claims for a total purchase price of US$1,000,000.

During the year ended February 28, 2008, the Company entered into a Mineral Lease Agreement to acquire 17 unpatented lode mining claims, paying US$10,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company was required to pay US$15,000 annually as a prepayment towards a production royalty of 2.5% of NSR of all mineral substances produced from the claims. During the ten months ended December 31, 2011, the Company acquired full ownership of these claims for a cash payment of US$50,000 and the issuance of 25,000 of its common shares valued at $33,750, in addition to US$60,000 in cumulative annual payments made prior to acquisition, thereby eliminating future advance royalty payments.

During the ten months ended December 31, 2011, the Company staked 180 unpatented lode claims and seven placer claims. During the twelve months ended December 31, 2012 an additional 196 unpatented lode claims were staked.

During the ten months ended December 31, 2011, the Company obtained various rights to water required for production from the Gibellini Property. Consideration for these rights included a cash payment of US$295,000 and 50,000 common shares in the Company valued at $67,500. The Company is required to make annual rental payments of US$225,000, which may be adjusted for the Consumer Price Index. During the twelve months ended December 31, 2012, the Company paid US$228,000 of such rental payments.

b) Del Rio Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 120 claims through the staking process. No additional claims have been subsequently acquired.

c) Hot Creek Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 18 claims through the staking process. No additional claims have been subsequently acquired.

Engineering, procurement and construction management

During the ten months ended December 31, 2011, the Company entered into an agreement with an independent contractor who will manage various phases of the development of a mine on the Gibellini Property. These phases include mine engineering, asset and service procurement, and mine construction. As at December 31, 2012, the contractor continues to complete the basic engineering phase.

On the commencement of the basic engineering phase, the Company paid a US$559,936 deposit, and additional monthly payments totalling US$2,799,679 are required throughout the phase. Payments made or accrued are recorded on the consolidated balance sheet as a deferred engineering management expense, which is then recognized as an expense on a percentage-of-completion basis over the duration of the anticipated service.

During the twelve months ended December 31, 2012, changes to the deferred engineering management expense and deposit balance are as follows:

	Amount
	$
Balance, March 1, 2011	-
Deposit paid	569,150
Monthly installments paid or accrued	542,896
Expense recognized for percentage-of-completion achievement	(32,656)
Balance, December 31, 2011	1,079,390
Monthly installments paid or accrued	1,714,373
Expense recognized for percentage-of-completion achievement	(1,017,551)
Balance, December 31, 2012	**1,776,212**

6. SHAREHOLDERS' EQUITY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	Amount
		$
Outstanding, March 1, 2011	20,267,814	6,349,922
Issued through private placements, net of share issuance costs	5,771,917	6,919,555
Issued on exercise of warrants	1,166,666	466,666
Issued on exercise of stock options	87,000	141,968
Issued for water rights (Note 5)	50,000	67,500
Issued for mineral claims (Note 5)	25,000	33,750
Issued on achievement of performance targets	75,000	78,750
Outstanding, December 31, 2011	27,443,397	14,058,111
Issued through private placements, net of share issuance costs	5,780,853	3,211,082
Issued on exercise of stock options	200,000	121,994
Issued on employment signing bonus	100,000	70,000
Outstanding, December 31, 2012	**33,524,250**	**17,461,187**

Private placements

On March 22, 2011, the Company completed a brokered private placement of 2,770,250 common share units at a price of $1.35 per unit for gross proceeds of $3,739,838. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share at a price of $1.95 until September 22, 2012. The full value of these units is attributed to the value of the common shares. An additional 193,918 agent's warrants were issued as part of this private placement with a fair value of $109,668. Each agent's warrant entitles the holder to purchase one common share at a price of $1.35 per common share until March 22, 2012. Transaction costs for the private placement, which include the fair value of agent's warrants, cash commissions, and legal and other fees, totalled $577,641.

On July 15, 2011, the Company completed a non-brokered private placement of 2,334,667 common share units at a price of $1.50 per unit for gross proceeds of $3,502,001. Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $2.00 until January 15, 2013. The value of these units has been bifurcated between common shares at a value of $1.34 per share and warrants at a value of $0.16 per one-quarter warrant. An additional 23,940 finder's warrants were issued as part of this private placement with a fair value of $8,232. Each finder's warrant entitles the holder to purchase one common share at a price of $2.00 per common share until July 15, 2012. Transaction costs for the private placement, which include the fair value of finder's warrants, cash commissions, and legal and other fees, totalled $211,516.

On August 31, 2011, the Company completed a non-brokered private placement of 667,000 common share units at a price of $1.50 per unit for gross proceeds of $1,000,500. Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $2.00 until February 28, 2013. The value of these units has been bifurcated between common shares at a value of $1.26 per share and warrants at a value of $0.24 per one-quarter warrant.

On September 12, 2012, the Company completed a non-brokered private placement of 3,225,854 common share units at a price of $0.62 per unit for gross proceeds of $2,000,030. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $1.00 until March 12, 2014. The value of these units has been bifurcated between common shares at a value of $0.55 per share and warrants at a value of $0.07 per one-half warrant. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $86,985.

Between December 19, 2012 and December 21, 2012, the Company completed non-brokered private placements of 2,554,999 common share units at a price of $0.65 per unit for gross proceeds of $1,660,749. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $1.00 until December 19, 2013 or December 21, 2013. The full value of these units is attributed to the value of the common shares. An additional 139,245 agent's warrants were issued as part of this private placement with a fair value of $28,763. Each agent's warrant entitles the holder to purchase one common share at a price of $1.00 per common share until December 19, 2013 or December 21, 2013. Transaction costs for the private placements, which include the fair value of agent's warrants, cash commissions, and legal and other fees, totalled $136,902.

Performance shares

During the ten months ended December 31, 2011, the Company entered into an arrangement whereby up to 500,000 of its common shares could be issued in four tranches to an officer of the Company upon meeting various milestones for the development of the Gibellini Property. During the ten months ended December 31, 2011, the first milestone was met and 75,000 of these shares valued at $78,750 were issued. The performance conditions for the issuance of the remaining shares are discussed in Note 13.

During the twelve months ended December 31, 2012, the Company's Board of Directors approved, subject to Exchange approvals, arrangements whereby up to 3,100,000 of its common shares could be issued to certain officers and directors, or to companies related to them. These shares are issuable in tranches upon completion of various milestones related to the development of the Gibellini Property or other strategic achievements. During the twelve months ended December 31, 2012, 100,000 performance shares valued at $70,000 were issued as a signing bonus to a new officer of the Company.

The performance conditions for the issuance of the remaining 3,425,000 performance and bonus shares are discussed in Note 13.

Warrants

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Life
		$	$	(Years)
Outstanding, March 1, 2011	1,166,666	0.40	-	
Warrants exercised	(1,166,666)	0.40	-	
Warrants issued as part of common share units	2,135,542	1.97	0.25	
Warrants issued as agent's and finder's fees	217,858	1.42	0.54	
Outstanding, December 31, 2011	2,353,400	1.92	0.28	
Warrants issued as part of common share units	2,890,425	1.00	0.08	
Warrants issued as agent's and finder's fees	139,245	1.00	0.21	
Warrants expired	(1,602,983)	1.88	0.07	
Outstanding, December 31, 2012	**3,780,087**	**1.20**	**0.21**	**.89**

The fair value of warrants included in common share units is determined as the excess in the value of the unit over the market price of the Company's common shares on the date the units are issued.

The fair value of agent's and finder's warrants issued on a stand-alone basis is determined using the Black-Scholes option pricing model. On a weighted average basis, the following Black-Scholes model inputs have been used to value such warrants granted:

	For the twelve months ended December 31, 2012	For the ten months ended December 31, 2011
Risk-free interest rate	**1.14%**	1.64%
Annual dividends	**-**	-
Expected stock price volatility	**90.12%**	107.50%
Expected life	**1 year**	1 year

The following warrants were outstanding and exercisable as at December 31, 2012:

Expiry date	Exercise Price	Number of Warrants Outstanding and Exercisable
	$	
January 15, 2013*	2.00	583,667
February 28, 2013*	2.00	166,750
December 19, 2013	1.00	1,349,206
December 21, 2013	1.00	67,537
March 12, 2014	1.00	1,612,927
		3,780,087

* Subsequently expired, unexercised.

Stock options

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the requirements of the Exchange, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Life
		$	$	(Years)
Outstanding, March 1, 2011	1,837,500	0.69	0.51	
Options granted	575,000	1.47	1.09	
Options exercised	(87,000)	0.96	0.67	
Outstanding, December 31, 2011	2,325,500	0.88	0.64	
Options granted	665,000	0.73	0.37	
Options exercised	(200,000)	0.35	0.26	
Options cancelled or forfeited	(235,000)	1.29	0.94	
Outstanding, December 31, 2012	**2,555,500**	**0.84**	**0.58**	**2.98**

The fair values of the stock options granted during the twelve months ended December 31, 2012 and the ten months ended December 31, 2011 have been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

	For the twelve months ended December 31, 2012	For the ten months ended December 31, 2011
Risk-free interest rate	**1.09%**	1.86%
Annual dividends	**-**	-
Expected stock price volatility	**85.79%**	129.44%
Expected forfeiture rate	**20.31%**	26.88%
Expected life	**2.55 years**	2.95 years

The following incentive stock options were outstanding and exercisable at December 31, 2012:

Expiry date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
	$		
February 12, 2013*	1.30	138,000	138,000
January 21, 2015	0.35	687,500	687,500
April 1, 2015	0.75	40,000	40,000
August 18, 2015	0.75	50,000	50,000
November 2, 2015	0.70	275,000	275,000
December 13, 2015	1.00	60,000	60,000
December 29, 2015	1.05	15,000	15,000
December 31, 2015	1.14	50,000	50,000
February 7, 2016	1.56	100,000	100,000
March 7, 2016	1.50	25,000	25,000
March 23, 2016	1.53	300,000	300,000
July 19, 2016	1.34	100,000	100,000
August 2, 2016	1.25	50,000	50,000
February 6, 2017	0.77	65,000	58,750
April 3, 2017	0.70	100,000	75,000
April 12, 2017	0.74	50,000	37,500
May 31, 2017	0.70	150,000	112,500
June 15, 2017	0.74	300,000	300,000
		2,555,500	**2,474,250**

* Subsequently expired, unexercised.

7. RELATED PARTY TRANSACTIONS

During the twelve months ended December 31, 2012, a $78,000 (ten months ended December 31, 2011 - $45,000) expense was recorded for office facilities, corporate and administrative services provided by a company jointly controlled by a director of the Company, of which $27,605 (December 31, 2011 - $12,290) is included in accounts payable and accrued liabilities.

During the twelve months ended December 31, 2012, a $180,000 expense (ten months ended December 31, 2011 - $100,000) was recorded for consulting services provided by a company jointly controlled by a director of the Company. Included in accounts payable and accrued liabilities at December 31, 2012 is $nil (December 31, 2011 - $43,448) payable to this related company. Additionally, 400,000 stock options were granted to this entity during the ten months ended December 31, 2011 with $358,528 being recorded in stock-based compensation for the period. During the twelve months ended December 31, 2012, 125,000 stock options were granted to this director with $42,940 being recorded in stock-based compensation for the year.

Included in prepaid expenses is $10,000 (December 31, 2011 - $10,000) advanced to the Chief Executive Officer of the Company for corporate expenses to be incurred on the Company's behalf. Included in accounts payable and accrued liabilities is a total of $10,186 (December 31, 2011 - $3,496) owing to this officer.

Included in accounts payable and accrued liabilities is a total of $21,453 (December 31, 2011 - $17,080) owing to the Executive VP, Operations; and $4,343 (December 31, 2011 - $nil) owing to the Vice President, Environmental.

In addition to the aforementioned related party transactions, salaries and benefits and other compensation earned directly by key members of the Company's management are as follows:

	For the Twelve Months Ended December 31, 2012	For the Ten Months Ended December 31, 2011
	$	$
Salaries and benefits	**451,066**	126,227
Consulting fees	**96,442**	122,000
Stock-based compensation recognized	**185,254**	217,363
Total compensation	**732,762**	465,590

8. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

		Net Comprehensive Loss
	For the Twelve Months Ended December 31, 2012	For the Ten Months Ended December 31, 2011
	$	$
Canada	**2,234,175**	2,385,962
United States	**3,818,821**	2,504,483
Total net comprehensive loss	**6,052,996**	4,890,445

		Total Assets as at
	December 31 2012	December 31, 2011
	$	$
Canada	**1,732,367**	3,507,763
United States	**4,135,651**	3,986,505
Total assets	**5,868,018**	7,494,268

9. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	For the Twelve Months Ended December 31, 2012	For theTen Months Ended December 31, 2011
	$	$
Accounting loss before income taxes	**(6,052,996)**	(4,985,495)
Income tax recovery at statutory tax rates	**(1,513,000)**	(1,321,000)
Impact of different foreign statutory tax rates on earnings of subsidiaries	**(368,000)**	(195,000)
Non-deductible expenditures and non-taxable revenues	**84,000**	213,000
Share issue costs	**(49,000)**	(178,000)
Changes in unrecognized deductible temporary differences	**1,846,000**	1,386,000
Total income tax recovery	**-**	(95,000)

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

The significant components of deferred tax assets that have not been set up are as follows:

	December 31 2012	December 31 2011
	$	$
Deferred tax assets:		
Share issue costs	**148,000**	139,000
Non-capital losses	**1,716,000**	759,000
Capital assets	**8,000**	7,000
Mineral properties	**2,737,000**	1,858,000
Total deferred tax assets	**4,609,000**	2,763,000
Deferred tax assets not recognized	**(4,609,000)**	(2,763,000)
Net deferred tax assets	**-**	-

The significant components of deductible and taxable temporary differences, unused tax losses and unused tax credits that have not been included on the consolidated statements of financial position are as follows:

	December 31 2012	December 31 2011
	$	$
Share issue costs	**593,000**	557,000
Non-capital losses	**6,349,000**	2,981,000
Capital assets	**24,000**	19,000
CEC	**-**	1,000
Mineral properties	**8,051,000**	5,465,000

Non-capital losses, if not utilized expire in or prior to 2032. Tax balances are subject to review and potential adjustments by tax authorities.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2012, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposits and accounts payable and accrued liabilities. With the exception of cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Cash	1,716,318	-	-

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

A portion of the Company's expenses are incurred in United States dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

The Company has not hedged its exposure to currency fluctuations and, as at December 31, 2012, the Company held $133,507 (December 31, 2011- $1,638,060) in United States dollars. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a $13,351 foreign exchange loss (gain) based on United States dollar holdings as at December 31, 2012.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources will be sufficient to cover the likely short term cash requirements and further funding will be required to meet long-term requirements.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

11. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the twelve months ended December 31, 2012. The Company is not subject to externally imposed capital requirements.

12. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the twelve months ended December 31, 2012 and ten months ended December 31, 2011 are as follows:

	For the Twelve Months Ended December 31, 2012	For the Ten Months Ended December 31, 2011
Net loss (numerator)	**$(6,052,996)**	$(4,890,445)
Basic and diluted weighted average number of common shares outstanding (denominator)	**28,693,513**	25,019,086
Basic and diluted loss per share	**$(0.21)**	$(0.20)

The Company incurred net losses for all periods reported, so no dilutive impact of in-the-money stock options and warrants has been included in the calculation of diluted weighted average number of common shares outstanding.

13. COMMITMENTS AND CONTINGENCIES

The Company is committed to the following expenditures:

Nature of payment	2013	2014	2015	2016	2017
Engineering management[1]	US$528,878	-	-	-	-
Mineral rights[2]	US$144,000	US$144,000	US$144,000	US$144,000	US$144,000
Water rights[3]	US$231,090	US$234,273	US$237,551	US$240,927	US$244,405
Office lease	Cdn$140,816	Cdn$140,816	Cdn$140,816	Cdn$140,816	-

1. As described in Note 5, the Company has commenced a basic engineering phase under a mine engineering, procurement and construction management agreement. While not contractually committed to further payments, the Company considers these to be constructive commitments.
2. As described in Note 5, the Company makes NSR prepayments in order to acquire and maintain mineral rights to its properties. To maintain certain of its properties in good standing, the Company is required to continue making these payments. While not contractually committed to further payments, the Company considers these to be constructive commitments.
3. As described in Note 5, the Company makes annual rental payments to maintain water rights for its properties. While not contractually committed to further payments, the Company considers these to be constructive commitments.

As discussed in Note 6, up to 3,425,000 of the Company's shares, 3,000,000 subject to Exchange approval, are issuable upon meeting various milestones for the development of the Gibellini property and for achieving certain strategic objectives. Although the timing and number of shares that will be issued under this arrangement is unknown, and certain specific milestones are at the discretion of the Company's Board of Directors, the issuance of these shares is contingent on the following events:

Contingent Event	Number of Shares Issuable[1]
Project permitting for the Gibellini property	250,000
Design and construction of mine leach pad on the Gibellini property	275,000
Obtaining project financing for the Gibellini property	Up to 1,300,000
Economic production of the Gibellini property	450,000
Various strategic milestones towards vanadium flow batteries	Up to 1,150,000
Various milestones towards a production off-take agreement	Up to 1,050,000

1. The number of shares issuable under certain milestones is not fixed, but the aggregate number of shares issuable is limited to 3,425,000. Additionally, the issuance of certain bonus and performance shares is contingent on the Company's share price meeting various targets.

As the events that would result in the issuance of these shares have not occurred, no provision for their payment has been recorded.

14. EVENTS AFTER THE REPORTING PERIOD

On April 11, 2013, the Company completed a non-brokered private placement of 1,607,698 common share units at a price of $0.70 per unit for gross proceeds of $1,125,388. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $1.20 until April 11, 2014. The Company paid finder's fees of $588 in cash and with 840 warrants that entitle the holder to purchase an additional 840 of the Company's common shares at a price of $1.20 per share until April 11, 2014.